DEPARTMENT OF VETERANS AFFAIRS PARTICIPATION IN THE FEDERAL ENERGY MANAGEMENT PROGRAM

HEARING

BEFORE THE

SUBCOMMITTEE OVERSIGHT AND INVESTIGATIONS

OF THE

COMMITTEE ON VETERANS' AFFAIRS
HOUSE OF REPRESENTATIVES

ONE HUNDRED FIFTH CONGRESS

SECOND SESSION

MARCH 18, 1998

Printed for the use of the Committee on Veterans' Affairs

Serial No. 105–32

U.S. GOVERNMENT PRINTING OFFICE
49-623CC WASHINGTON : 1998

For sale by the U.S. Government Printing Office
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402
ISBN 0-16-057744-6

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DEPARTMENT OF VETERANS AFFAIRS PARTICIPATION IN THE FEDERAL ENERGY MANAGEMENT PROGRAM

WEDNESDAY, MARCH 18, 1998

House of Representatives,
Subcommittee on Oversight and Investigations,
Committee on Veterans' Affairs,
Washington, DC.

The subcommittee met, pursuant to call, at 2 p.m., in room 334, Cannon House Office Building, Hon. Terry Everett (chairman of the subcommittee) presiding.

Present: Representatives Everett and Clyburn.

Also Present: Representative Evans.

Mr. Everett. I'm going to go ahead and start the hearing. Unfortunately, I think we've had three national security hearings today. This is the third Veterans' Committee hearing. I know there's been two Agriculture Committee hearings. I know Budget is meeting, and a group of others—Commerce—so Mr. Evans and I may be the only two here, but it is an important hearing.

This hearing today by the Veterans' Affairs Subcommittee on Oversight and Investigations is intended to provide an in-depth look at the Department of Veterans Affairs' commitment and participation in the Federal Energy Management Program.

The Energy Policy Act of 1992 authorizes agencies to utilize energy savings contracting to leverage private sector capital to fund energy retrofits and upgrades. Today we will examine how the VA has exercised good fiscal management and how effectively they have utilized these energy savings initiatives.

Under this program, the Department of Energy in 1997 estimates the VA facilities to reduce energy consumption by more than $60 million annually. These savings could begin as soon as projects are implemented.

Every week the VA does not achieve its 30-percent energy savings goal can cost $1.2 million in lost opportunity—each and every week, $1.2 million. This conservative estimate is based on an annual utility cost of $212 million to operate some 4700 buildings and approximately 122.5 million square feet.

Public and private sector energy utility companies have expressed interest in providing investment capital for VA energy conservation projects. The VA has been a reluctant participant in the past, but now appears to be moving ahead. We will hear more from the private sector on how successful these partnerships can be.

We will also hear from an early proponent of Energy Saving Performance contracting, the Department of Army. I understand that the Army has been very successful with ESP contracts.

I hope the VA's testimony will tell us how they plan to take greater advantage of this innovative type of contracting. Alternative financing for energy efficiency improvements should replace additional federal appropriations where feasible.

Currently, each VA hospital exercises contracting authority. The VA should explore negotiations in energy conservation contracting in larger service areas such as the 22 Veterans Integrated Service Networks.

I look forward to hearing from our witnesses today. At this time, I would like for any comments from my good friend, Mr. Clyburn, our Ranking Member.

OPENING STATEMENT OF HON. JAMES E. CLYBURN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF SOUTH CAROLINA

Mr. CLYBURN. Thank you very much, Mr. Chairman. As Ranking Democratic Member of this Subcommittee, I am pleased that you have called this important hearing that goes to the very heart of good government.

If we took a poll, most Americans would probably have no idea what the Federal Energy Management Program is. That is not to say, however, that it is not an important initiative.

Congress voiced its strong support for this program when it enacted the Energy Policy Act of 1992. The program is designed to encourage reduced energy consumption and more efficient use of scarce resources by our Federal agencies, including the VA.

For reasons that I'm sure VA will explain in some detail this afternoon, it has taken a while for them to begin achieving the efficiencies called for under the Act. No doubt there is a lot of work yet to be done on the part of the VA and other Federal agencies.

I am hopeful this hearing will help sensitize the VA to the importance this Committee places on the program, and to the wise and efficient use of its appropriated dollars.

Thank you, again, Mr. Chairman, for putting together this hearing this afternoon. I look forward to the testimony.

[The prepared statement of Congressman Clyburn appears on p. 25.]

Mr. EVERETT. Thank you very much. Mr. Evans.

OPENING STATEMENT OF HON. LANE EVANS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Mr. EVANS. Thank you, Mr. Chairman. I, like you, am a member of the National Security Committee and am in between hearings and won't be able to stay long. But I did want to commend you and Jim for your interest in today's hearings.

Energy efficiency and cost savings may not make headlines in the papers, but they are the kinds of priorities the VA and other Federal agencies cannot afford to ignore as we make our plans for the 21st century.

So, I want to thank you again, Mr. Chairman, for recognizing me, and I look forward to some of the testimony before I have to report, as ordered, over to the National Security Committee.

[The prepared statement of Congressman Evans appears on p. 28.]

Mr. EVERETT. Thank you very much, Lane, I appreciate it.

Mr. EVERETT. We're going to have a vote probably in about 7 or 8 minutes. I'm trying to find out if it's to be one or two votes—does anybody know? I'm going to ask the witnesses to limit their oral testimony to 5 minutes. Complete written statements will be, of course, entered into the official hearing record. And I will ask that we hold our questions until each entire panel has testified.

Now I would like to recognize Panel 1 and welcome Mr. John Archibald, Acting Director, Federal Energy Management Program, Department of Energy. If you would, please be seated with your panel.

STATEMENT OF JOHN ARCHIBALD, ACTING DIRECTOR, FEDERAL ENERGY MANAGEMENT PROGRAM, DEPARTMENT OF ENERGY; ACCOMPANIED BY MS. TANYA SADLER, ENERGY SAVINGS PERFORMANCE CONTRACTING PROGRAM MANAGER, FEDERAL ENERGY MANAGEMENT PROGRAM, DEPARTMENT OF ENERGY

Mr. ARCHIBALD. Thank you, Mr. Chairman, and I appreciate being able to introduce my written testimony for the record. I just have a few summary remarks.

It is in the interest of all agencies to manage their energy wisely. In my capacity as the Acting Director of the Federal Energy Management Program, we work with all agencies who are ultimately responsible for their own energy use, but we try to coordinate their activities and streamline the activities of the Federal Government as a whole.

As we all know, budgets are tight even for cost-saving projects such as energy projects, and for several years agencies would complete the best projects they had identified, but there was never enough money to cover all of the projects that they could line up.

In the mid 1980s, Congress passed and the President signed into law this unique authority at that time called "Shared Energy Savings" and currently called "Energy Savings Performance Contracts".

This authority gives agencies an opportunity to use private sector funds and private sector human resources to stop the waste of energy that agencies could not stop with their own limited resources.

The current Energy Savings Performance contracting authority is greatly improved, and contracting actions by DOE and the Army are accelerating the use through a mechanism that we have called "Super ESPCs", Super Energy Savings Performance Contracts.

The VA, through one of the members that will testify here today, Bob Palazzi, was in the forefront of using these authorities to save taxpayers money at a VA Hospital in Connecticut. And I'm pleased at the level of activity that we are seeing in regions across the country where we are issuing—where DOE is issuing its Super ESPC contracts.

The contracting task is now much simpler as a result of these Super ESPCs, and the agency workload at the facility level is much easier than it had been just recently.

For FEMP and Headquarters agencies, there is a similar easing for each contract that we put in place of that workload. However, the demand that we are seeing in the field to use those contracts is actually increasing FEMP's workload, so that while we are busier at what we do, we are doing much more than we had been able to do in the past.

FEMP and the Department of Energy are ready to help the VA and others as we help them implement these activities to help cut energy savings at their facilities, and we are expecting very significant energy savings to result. That's the conclusion of my opening remarks, Mr. Chairman.

[The prepared statement of Mr. Archibald appears on p. 29.]

Mr. EVERETT. Thank you very much. I have just two brief questions. What are the major constraints for the VA to participate in DOE or Army Super ESPC?

Mr. ARCHIBALD. The activities that are called for in these contracts right now require that the contractors provide a proposal to the facility and that the facility then be able to evaluate the proposal and to negotiate with the contractor on the best terms and conditions. So, there may be some energy-savings measures such as a lighting retrofit that would need to be incorporated or need to be expanded, and the agency needs to be able to manage that activity at the local facility level.

Now, FEMP, through a mechanism that has just begun in Fiscal Year 1998 is authorized to assist the agencies at the local level, at the facility level, and to be reimbursed by the agency when those energy savings accrue in the outyears.

So, that is probably the biggest activity for each agency such as the VA to undertake, is that negotiation with the Energy Savings Performance contractors at the local level, around the specific work that is involved at that site.

Mr. EVERETT. How many VA Energy Savings Projects would you estimate could be initiated this year?

Mr. ARCHIBALD. I know within the Department of Energy's contracts that we're putting in place, we've had discussions with four different VA VISNs, the Integrated Service Networks. Some of those are in places where we already have our contracts in place, and I would anticipate that we would see at least one of those signed this fiscal year to cover a VISN. The others are in areas where we are still working to put our contracts in place. For example, in the northeast, our contract there will be in place in the summertime. And so I don't know that the VA portion of the work will be added by this fiscal year, but I would expect that it might be added by the end of the calendar year.

Mr. EVERETT. How about in 2 years?

Mr. ARCHIBALD. In 2 years, I would anticipate all four of those VISNs to have closed contract with the Energy Service contractors, and I would anticipate that others probably, if I might make a guess, I would say another four VISNs would have signed on just from places where we've had very preliminary discussions, but not the discussions that would actually bring us to close those contracts. That's for the DOE contracts alone.

I will let the General speak for the Army's activities, but I do know that the Army and the VA are working together on a handful of additional VISNs that would be signed up under contracts under the Army's contracting mechanism.

Mr. EVERETT. Thank you very much. Mr. Clyburn.

Mr. CLYBURN. I have one question. The VA has indicated that it was precluded from entering into Energy Savings Performance contracts until regulations were put into place providing guidance on such contracts.

Does your agency share a similar view regard the need for regulations prior to entering into such contracts?

Mr. ARCHIBALD. Mr. Clyburn, we did not. In fact, we communicated to the VA that we felt that the authorities that were provided in the Energy Policy Act were clear, and that the statements that we had put in place, or the rulemaking process that we had gone through at DOE, as we were required to do in the Energy Policy Act, provided a clear mechanism to allow all agencies to use the Energy Savings Performance contracting authority.

We did communicate that to the VA and, in a series of discussions over time, we and the VA came to the same conclusion that, in fact, we were authorized to use the ESPC authority.

Mr. CLYBURN. So it was just a concern as to whether you were authorized to do it, or they were authorized to do it, or whether or not they didn't have proper guidance?

Mr. ARCHIBALD. Well, I would—I guess I would say initially counsel for both agencies disagreed. The counsel for DOE rendered an opinion that said yes, we were authorized to use the ESPC authority. Counsel within the VA had identified that they were not allowed to use it, that the authority was not granted. And what we ended up doing was negotiating over a period of time through a series of discussions at different levels within the agency, and ultimately both agencies agreed that the authority was, in fact, granted and that all agencies were authorized to enter into ESPCs.

Mr. CLYBURN. Thank you, Mr. Chairman.

Mr. EVERETT. Thank you. For the record, Department of Energy is the lead agency in this, right?

Mr. ARCHIBALD. Yes, that's correct. In the Energy Policy Act, the Department of Energy was directed to issue the rulemaking on how to use the Energy Savings Performance contracts that were granted.

Mr. EVERETT. And there is no disagreement between Department of Army and the Department of Energy on how to proceed on this?

Mr. ARCHIBALD. I don't believe so, sir.

Mr. EVERETT. There is a disagreement between counsel for VA and your counsel?

Mr. ARCHIBALD. There was disagreement in the early days. I believe all that disagreement is now ironed out.

Mr. EVERETT. Okay. We're going to recess this hearing. First of all, let me dismiss this panel. Jim, do you have any more questions?

Mr. CLYBURN. No, sir.

Mr. EVERETT. Let me dismiss this panel, and thank you for your participation. We may have additional questions for the record, and we're going to recess the hearing until we can take this vote. We should be back in about 10 minutes. Thank you.

[Recess.]

Mr. EVERETT. I'd like to start the hearing again and call the second panel. Mr. Keith, Senior Vice President and General Counsel for CES Way, International, Inc. Mr. Keith is representing the National Association of Energy Service Companies.

Mr. Keith, if you will just begin your testimony, and please hold it to 5 minutes.

STATEMENT OF ERBIN KEITH, SENIOR VICE PRESIDENT AND GENERAL COUNSEL, CES/WAY, INTERNATIONAL, INC., REPRESENTING NATIONAL ASSOCIATION OF ENERGY SERVICE COMPANIES, NAESCO

Mr. KEITH. Good afternoon, Mr. Chairman, Members of this Subcommittee. As I sated, I am Erbin Keith, Senior Vice President and General Counsel of CES Way International. CES Way International is an Energy Service Company, or commonly called an ESCO. I'm here to give testimony on behalf of National Association of Energy Service Companies, NAESCO, and I have submitted a written statement for the record.

In the brief time I have today, I will emphasize NAESCO's recommendations regarding the Department of Veterans Administration's Energy Management Program.

A year ago, if I was giving this testimony, it would be quite different. Frankly, after the DVA issued ESPC guidelines in September of 1996, very little happened. That has changed somewhat over the last year. The DVA has shown some movement on the ESPC by entering into some ESPC contracts, primarily under the Corps of Engineers Huntsville ESPC, and has also issued some Requests for Proposals for ESPC contracts around the country. Some of these projects are mentioned in Major General Hunter's written testimony.

The DVA should be congratulated on taking these steps, but they need to be encouraged to take further steps and implement more projects. Indeed, that is the real challenge, not just entering to an ESPC, but actually implementing the project. Expediting that process is critical because, as the Chairman noted, truly time is money here, and the most inefficient solution is to delay or not do anything.

In light of this, NAESCO has four recommendations for the DVA. First, the DVA should rely on congressionally authorized ESPC for the procurement of energy efficiency measures. ESPCs offer many advantages over procurement options such as sole-source utility company area-wide agreements. For example, the Corps of Engineers Huntsville and DOE have put in place, or are putting in place nationwide, Indefinite Delivery/Indefinite Quantity ESPCs that the VA can, and has at least three instances, ordered off these contracts, particularly the Corps of Engineers Huntsville.

These ID/IQ ESPCs were put in place by the Government agencies most experienced in ESPC, namely, the Department of Energy and the Corps of Engineers Huntsville. The contracts are well written. They are based on their experience and their lessons learned. The ESCOs selected under these contracts are among the most experienced in the country. In short, the contracts are in place. There is nothing preventing the VA from ordering off the contracts, and they have done so. The Corps of Engineers and Department of Energy have essentially "greased the procurement skids", and this process should be followed.

Other options, such as sole-source utility company areawide agreements are inappropriate for VA Hospital energy conservation projects. VA Centers have special challenges for energy conservation projects. For example, VAs operate 24-hours-a-day, seven-days-a-week. They are very energy-intensive. The construction projects at VA Centers tend to be more expensive because it's a complex hospital environment. VA Hospitals have typically environmental issues that need to be addressed. They have complex system and equipment, and they have a significant amount of deferred maintenance costs that need to be addressed in an energy conservation project. An ESPC is much better suited to meet these challenges.

The ESPCs are based on competitive procurement versus sole-source. That means the Government is likely to get a better price for the project. The ESPCs provide longer contract terms and, thus, more comprehensive projects, an important issue because some of our NAESCO members have found where utility companies have come in and done projects under an areawide agreement that tend to be what we consider "cream-skimming" projects. That isn't a service to the VA.

Often, other O&M savings can be considered in an ESPC contract, where they can't under a utility areawide agreement. The contract under an ESPC is performance-based and guaranteed. Not so under utility areawide agreement. And the ESCOs may bring significant hospital experience to the table, an experience that you may not see in a utility company.

Our second recommendation is that the VA should consider implementation of ESPCs, where possible, on a VISN basis rather than a facility basis. This offers two advantages. One, by pooling the resources at a VISN level you're likely to have individuals who have different levels of expertise on different types of projects, and by pooling it at the VISN level, they can all work to implement the project.

Two, by implementing on a VISN level, you may be able to take particular facilities that do not have significant energy savings and use other facilities with greater amount of savings to help implement the project at the smaller facility.

Our third recommendation is that DVA support and train the local contracting officers. ESPCs are fairly new in some aspects, and are foreign to Government procurement. To take advantage of these ESPCs, the Government should provide training to the local contracting officers. The DOE and Corps of Engineers Huntsville are a good source for this training.

Four, the ESPC program should be supported from the top down, from the DVA to the VISN level, and finally to the facility level. I don't need to elaborate on this point, but it's only obvious that you should be applying it at all levels of the DVA to make these projects work.

On behalf of NAESCO, thanks for giving me the opportunity to give this testimony, and I'm prepared to answer any questions.

[The prepared statement of Mr. Keith appears on p. 33.]

Mr. EVERETT. Thank you very much. As Acting Secretary West was at the Army when they used this program, I think we're going to have top-down.

Mr. KEITH. That's encouraging.

Mr. EVERETT. I'm not trying to put words in his mouth, but I think he's seen the benefit of the program. If you would, just a thing or two about training contracting officers. Could you go into a little bit more detail about that?

Mr. KEITH. Well, the contracting officers, particularly at the facility level, may not have any experience in ESPCs. Again, they are fairly new, and some of the contracting procedures are foreign to traditional Government contracting procedures.

It's important that the contracting officers at all levels have a good understanding of not only the contract terms of an ESPC, but how they are implemented. There are excellent sources for this training, particularly at the DOE and Corps of Engineers Huntsville. I've sat through their training. It's an excellent way to get these contracting officers to understand how an ESPC is implemented.

Mr. EVERETT. How comprehensive are the VA's energy conservation initiatives, can you elaborate on that?

Mr. KEITH. Ideally, they would be very comprehensive. NAESCO supports comprehensive energy conservation projects, and I want to explain what I mean by comprehensive.

It's very easy to go in almost any facility of a certain age and come up with energy conservation measures related to lighting, for example, There are typically quick paybacks. And you can install a lighting system and it will pay from its savings in 3, 4, 5 years.

The idea to do a comprehensive project is to use those quick payback items to pay for energy conservation measures that don't have quick paybacks. So, by blending all the items together, you come up with a project that pays in a reasonable amount of time.

The advantage to doing a comprehensive project is that you take care of a lot of the capital renewal needs of the facility. If you do a lighting only project, at that point you've wasted the opportunity. Now there has to be appropriations to go back and accomplish the other energy conservation measures that would need to take place at the facility, or environmental measures that need to take place.

Chiller replacement to comply with CSC requirements, for example. Once you've wasted the opportunity by doing a lighting only project or a quick payback project, you've lost that opportunity. That's the other advantage of an ESPC, is that under a utility areawide agreement, you're limited to a 10-year contract term. That limits the comprehensiveness of the project, and we have seen examples of that in industry.

By going to an ESPC, you can go up to 25 years. And I think the DVA can give proper guidance to the VISN level and facility level as to when it's appropriate to go from, say, a 10-year project to a 15 to a 20 to a 25. My company, for example, has projects ranging from 15 years to 25 years with the Federal Government.

Mr. EVERETT. I mentioned earlier that we have a lot of scheduling conflicts going on which seem to get worse and worse nowadays, and we don't have any Members of the Minority present, but we will allow counsel for the Minority to ask some questions. Thank you.

Mr. SACHS. Thank you, Mr. Chairman, I'll be brief. Following up on what Chairman Everett was asking with regard to the status of the VA's energy savings efforts, can you give us a sense for how comprehensive those efforts are, and can you quantify the potential cost-savings out there within the VA?

Mr. KEITH. Okay. Perhaps it's too early to answer your question, but the contracts that the VA has entered into are fairly recent, over the last year. An ESPC contract has various stages you must go through.

First stage is to actually contract. Then audits have to be done, feasibility studies, approval to move on to a more well defined study, and then finally approval to move on with implementation of the project.

I'm not aware of any VA Hospital projects that have been awarded, for example, under the Corps of Engineers Huntsville's contract that have gotten past maybe the audit stage.

My company, for example—actually, Major General Hunter I think is going to address some of these particular projects in his testimony—but, for example, in our projects, we are proposing very comprehensive project involving lighting, chiller change-out, co-generation options, humidity control, particularly long-term items to the VA.

As of this point, we have been nothing but encouraged by the VA in our VISN that we're working, in response to our preliminary proposals.

Mr. SACHS. How about a sense for potential cost-savings out there. Are you in a position at this point to give us an idea, based on how many facilities there are within the VA system, about what kind of cost-savings could be generated?

Mr. KEITH. Yes. We have a rule-of-thumb that we use at these facilities. Typically, you can take the utility bill at a particular facility and, for a 10-year project, the 1-year utility bill is about the size of the project you can do.

So, for example, if a VA has a $2 million utility bill, we feel we can do at least a $2 million project at that facility, sometimes much greater depending on the availability of DS money and other incentive monies.

So, for example, in the VISN that we're working in right now, which is Florida and Puerto Rico, we are going to propose, and have submitted preliminary proposal, to do about $6 million of work at those seven hospitals, and this year alone we are expecting seven hospitals could have an ultimate construction value of between $20 and $30 million.

Mr. SACHS. Thank you, Mr. Chairman.

Mr. EVERETT. I want to make sure the record is clear. Do you currently have any Federal contracts?

Mr. KEITH. CES Way has Federal contracts under the Corps of Engineers Huntsville ESPC as well as the DOE's Southeast. Our affiliate company, Energy Pacific, has contracts under the DOE's

Super ESPC in the West. CES Way has probably completed more Federal ESPCs than any ESCO. So there's quite a few contracts that are still ongoing but have been implemented.

Mr. EVERETT. Thank you very much, Mr. Keith. We will have additional questions for the record, and we will appreciate your response to them. At this time, we will call Panel 3.

Major General Milton Hunter, Director of Military Programs for the Army Corps of Engineers, for the Department of Army. General Hunter, we welcome you very much, and if you will introduce who is with you on your panel, and then at that point you may proceed, please.

STATEMENT OF MAJ. GEN. MILTON HUNTER, DIRECTOR, MILITARY PROGRAMS, ARMY CORPS OF ENGINEERS, DEPARTMENT OF ARMY; ACCOMPANIED BY JOE A. McCARTY, MECHANICAL ENGINEERING TEAM LEADER, DIRECTORATE OF MILITARY PROGRAMS, HEADQUARTERS, U.S. ARMY CORPS OF ENGINEERS

MGen. HUNTER. Thank you, Mr. Chairman. Mr. Chairman and Members of the Subcommittee, I am Major General Milton Hunter, Director of Military Programs in the Headquarters of the United States Army Corps of Engineers. Accompanying me today is Mr. Joe McCarty. He is from our Engineering and Construction Division in the Military Programs Directorate. He is my Mechanical Engineering Team Leader and supervisor at the ESPC program.

In your letter of invitation, you asked for testimony on the Army's experience in ESPC. With your permission, I would like to give a brief overview of the Army experience with the program, and submit a more complete version for the record. And then I'll close by briefly discussing the Corps' effort and support of the Veterans' Administration ESPC Program.

Currently, the program has turned an Army investment of $792,000 since 1988 into 11 projects with a private sector investment of $36 million for the replacement of lighting, motors, cooling systems, ground source heat pumps, and air propane plants. The result is a total estimated cost avoidance of over $53 million over the life of the contracts. This is a great investment with over $11 million to be retained by the Government, a ten-fold return on the Government's investment.

The Corps' involvement in Shared Energy Savings, which is the same as ESPC, began in 1986 with a chiller replacement project in Corpus Christi, TX. The Corps now has over 13 regional Super ESPC contracts to cover all 50 States, District of Columbia, and Puerto Rico. These 13 regional ID/IQ contracts have an ordering capacity for about $2 billion worth of energy saving measures. These contracts administered by our support center in Huntsville, AL, which was mentioned by the earlier witnesses, are available to any Government agency. Our customers include the Army, the Air Force, the Coast Guard, Defense Logistics Agency, the National Guard Bureau, and the Veterans' Administration.

In February, the Office of the Secretary of Defense provided the Corps with $4 million to "jump start" the ESPC program for all DOD services. This money is being used to support a wide variety of initiatives including assisting customers in the award of task orders against the existing areawide contracts; development of new contracts to support ESPC activities at DOD facilities in Europe and Korea; expansion and award of additional contracts for CONUS; training in the ESPC process; and promotion of the ESPC program as well as technical support to the Air Force and the Navy in implementing ESPC programs.

The Veterans' Administration uses a multi-faceted approach, as you heard earlier for energy savings performance contracting. They use the DOE regional contracts, they develop their own contracts, and they use the Corps' contracts.

Currently, three of the 22 Veterans Integrated Service Networks have chosen to take part in the Corps' ESPC program., and signed Memorandums of Agreement with our Huntsville Support Center in the Fall of 1997.

The VA Omaha Medical Center in Omaha, Nebraska has also chosen to participate. An ESPC contractor has been selected for each. Training sessions for both Government and contractor personnel have been provided. The training provides information of the ESPC process, and the responsibilities of all involved parties.

The ESPC contractors have performed site visits and are currently proposing projects such as lighting upgrades and controls, chiller upgrades and replacement, boiler upgrades, utility monitoring and control systems, domestic water heating, electric peak shaving, variable speed drives, geothermal heat pumps, cooling tower replacement, and motor replacements. This represents a total estimated private investment of about $15 million with a potential energy cost avoidance of about $30 million. Construction activity is expected to begin in the Fall of 1998.

The DOD strategy to increase the efficiency of facilities and reduce energy demand and consumption was based on the fact that in Fiscal Year 1997 DOD spent over $2 billion for energy for buildings and facilities alone, as a part of their total usage of over $5 billion.

Sir, that concludes my testimony subject to your questions.

[The prepared statement of General Hunter appears on p. 40.]

Mr. EVERETT. General, thank you very much for being here today. Can you again give me a sum total of how much the Army saved in energy and money by ESPC contracting?

MGen. HUNTER. Yes, sir. The earlier figure I mentioned was $792,000 on 11 contracts. The projected savings is $53 million. To date, we estimate we have avoided $11 million.

Mr. EVERETT. That's a dollar-for-dollar savings on appropriated funds.

MGen. HUNTER. Yes, sir.

Mr. EVERETT. If you will, please elaborate on the Super ESPC. I understand that the VA is considering participating in this one.

MGen. HUNTER. Sir, they are, in fact, participating in the ESPC contracts that we have awarded. I mentioned earlier that we had three Veterans Integrated Service Networks that have participated in ESPC contracts. We have also gotten the VA Omaha Medical Center to come on-line to participate in this process. So we have four from VA right now.

Mr. EVERETT. Does the VA lose its bargaining power by contracting as single medical centers rather by regional VISNs?

MGen. HUNTER. Sir, I'm not sure of that. I would have to research that and get you an answer for the record.

(The information follows:)

FACILITY VERSUS REGIONAL CONTRACTS

Question. Does the VA lose its bargaining power by contracting as single medical centers rather by regional VISNs?

Answer. Regional VISN contracting is ideal. ESPC can be effectively used on essentially any facility or group of facilities. However, the more facilities in the grouping, up to a point, the greater the number and variety of energy conservation opportunities available. This increases the potential for combining a variety of energy conservation measures into ESPC projects that are acceptable for funding by the private contractor and provides the Government with the optimum benefits in terms of energy savings and cost avoidance.

Mr. EVERETT. Thank you. Let me ask you, even with your contractor training program, do you think a local medical center contracting officer has the expertise to exercise these ESPC contracts?

MGen. HUNTER. I think with appropriate training they could exercise these contracts. Right now, we have a center of expertise as well as DOE, and if trained to use this instrument, I think they could be very successful in using it locally.

Mr. EVERETT. But they would need the training.

MGen. HUNTER. Yes, sir.

Mr. EVERETT. Does the Army Corps of Engineers favor single facility contracts or regional systemwide contracts?

MGen. HUNTER. Sir, we feel we can gain more advantage with a regional contract simply because you can issue multiple task orders against that contract and not have to issue single contracts with every energy savings effort.

Mr. EVERETT. General, that's all the questions I have. We're going to let counsel for the Minority ask some questions. By the way, we may have additional questions for the record.

MGen. HUNTER. Yes, sir.

Mr. SACHS. General, your testimony indicates that three of the 22 VISNs within VA are presently working with you on energy savings performance programs. Can you give us a more detailed look at those three VISNs? Do you know whether contracts have actually been signed on those projects?

MGen. HUNTER. Sir, I think the Memorandums of Agreement have been signed, but I don't think the contracts have been finalized yet.

Mr. SACHS. Okay. Can you give us a thumbnail sketch what kind of energy saving activities are envisioned at those particular VISNs, and also a sense for the degree to which those kind of energy saving practices can be applied across-the-board within the VA hospital system?

MGen. HUNTER. I'll defer that to my expert here in terms of what VA has done so far, since they have not been finalized. Maybe he can give you a sense of what they are doing in terms of the scope of work.

Mr. MCCARTY. Some of the things they are looking at would, of course, be lighting that was previously mentioned, which is usually a very high payback item. My understanding is they are also looking at high efficiency motors. They also looking at and seriously considering replacing some chillers with more energy efficient chillers. This also gets away from the ozone depleting chemicals in older chillers.

I understand that there may be some cases where they are actually looking at geothermal heat pumps which may have application in the smaller units. These are some of the items that are being looked at. Of course, it is very site-specific. Most of those items that I've mentioned would have application in a large number of facilities, both VA facilities and military facilities.

Mr. SACHS. So it is your sense that many of these cost-savings projects can be applied on a much larger scale within the VA hospital system?

Mr. MCCARTY. Yes, sir. Many of the energy conservation measures have wide applicability.

Mr. SACHS. General, if you could just—and this is the last question I have—if you could give us a sense for the degree which you have conducted any outreach, or the Corps has done outreach, to increase VA's awareness of the cost-saving possibilities?

MGen. HUNTER. Sir, we have been promoting the program, as I alluded to earlier, within the Department of Defense. It was not widely used. It was used in parts of the Army and parts of the Air Force. What we did, in my briefing to the Deputy Secretary of Defense, was to get it imbedded DOD-wide. And the $4 million that was provided after that briefing was to give it a jump start to get all of the services to use it within DOD. So, that's sort of been the first effort.

Mr. SACHS. So there has not been any stepped-up effort to spread the word at the VA, it's been kind of a focus at this point within DOD, is that correct?

MGen. HUNTER. Yes, sir.

Mr. SACHS. Thank you, Mr. Chairman.

Mr. EVERETT. General, let me extend my thanks to you for being here today. We certainly appreciate your testimony. At this time, as I said, we may have additional questions that we would appreciate your prompt response to for the record.

Thank you very much, General.

Mr. EVERETT. We will now call the next panel, Panel 4. Mr. Kenneth Clark, Chief Network Officer for the Veterans Health Administration, for the Department of Veterans Affairs, and Mr. Robert Palazzi, Chief, Design and Development, of the VA Connecticut Healthcare System. Gentlemen, if you will please be seated along with the rest of your panel.

STATEMENT OF KENNETH CLARK, CHIEF NETWORK OFFICER, VETERANS HEALTH ADMINISTRATION, DEPARTMENT OF VETERANS AFFAIRS; ACCOMPANIED BY ROBERT A. PALAZZI, CHIEF, DESIGN AND DEVELOPMENT, VA CONNECTICUT HEALTHCARE SYSTEM, DEPARTMENT OF VETERANS AFFAIRS; BILL GRAHAM, DIRECTOR, NETWORK PROGRAM SUPPORT OFFICE, CNO; RAJ GARG, CHIEF, ENERGY MANAGEMENT DIVISION, CNO; AND LEN MALAMUD, SPECIAL ASSISTANT TO THE ASSISTANT GENERAL COUNSEL, GROUP V

STATEMENT OF KENNETH CLARK

Mr. CLARK. Thank you, Mr. Chairman. Let me introduce the members of the panel. To my left is Mr. Robert Palazzi, who is the Chief of Design and Development Section of the West Have, Connecticut, VA Medical Center. To my right is Mr. Bill Graham, who is the Director of the Network Program Support office here in Headquarters. Next to Mr. Graham is Mr. Raj Garg, who is the Chief of Energy Management Division located here in Headquarters. And to Mr. Garg's right is Mr. Len Malamud, who is with the Office of the General Counsel, also here at Headquarters.

Mr. EVERETT. If you will proceed with your testimony, and I ask you again to hold it to 5 minutes, and we will submit your complete testimony for the record.

Mr. CLARK. I have just a few opening comments to make, and Mr. Palazzi does as well, and we will be, obviously, available for questions.

Mr. Chairman, I appreciate the opportunity to discuss VHA's Energy Management Program with you this afternoon. Since initial energy conservation measures were begun in 1975, the VA has consistently met, or exceed, all energy reduction goals set by Executive Orders.

During those years, we've applied a variety of technologies consistent with legislative authority to help us meet our goals, and those will need to be even more rigorously managed as agency budgets continue to be held to responsible levels.

The Energy Reduction Act of 1992 made Energy Savings Performance contracting possible for Federal agencies. Following issuance of contractual guidelines by the Department of Energy in final regulations published in the Federal Register in 1995, unique specific ESPC contract criteria were then developed by each Federal agency.

In VA, these efforts involve General Counsel, procurement, field energy, and energy staff members. Criteria were issued to all VA Medical Facilities in October 1996.

In response to field feedback, clarification guidance was subsequently distributed to all facilities last year. Since that time, training of field staff has been performed, familiarization both with procurement and technical staff at each facility and in the VISN with specific contract requirements of the ESPCs has been accomplished.

In addition, simplification of the process has recently been made for the use of recently established regional Super ESPCs in each of the six DOD regions.

VHA sees tremendous field use of the ESPC and Super ESPC options for energy conservation. We have included several examples of specific applications in my written testimony, and we have a member of the panel, as I mentioned, from the VA Medical Center, West Haven, CT, who has personally dealt with the ESPC process.

I'd like to ask Mr. Palazzi, from the West Haven VA, to make his opening statement, and then our panel will be available to answer any questions you have.

[The prepared statement of Mr. Clark appears on p. 43.]

STATEMENT OF ROBERT A. PALAZZI

Mr. PALAZZI. Good afternoon, Mr. Chairman. I have submitted my testimony in writing for the record, and I will just synopsize the program that was accomplished at VA Connecticut Healthcare Systems.

Basically, we awarded an ESPC contract. At the time, it was called SES, Shared Energy Savings, based on the authority granted in the mid–1985 ruling, the same ruling that Department of Defense was working on as well as Army Corps.

The contract was awarded November 11, 1992, and was substantially complete by April of 1993. Our Medical Center enjoyed the benefit of working with a very astute ESCO, which is an Energy Service provider. We developed a project which has replaced our chiller plant, and retrofitted and/or replaced approximately over 8,000 light fixtures at West Haven.

The project completely pays for itself. There were no additional funds added to this project. There's no additional taxpayer dollars expended other than what we would have normally expended in our utility budget if we had done nothing.

I feel our project was a success, and I really don't have anything bad to say about ESPC, nothing but applause because it worked well for us.

[The prepared statement of Mr. Palazzi appears on p. 48.]

Mr. EVERETT. Thank you very much. I'm going to ask some direct questions—and, Mr. Clark, I'll start with you—you can respond in perhaps as few words as possible, but if you feel additional information should be furnished to the Committee, please feel free to do so in written form.

Briefly state what the Department has done to move the ESPC program forward.

Mr. CLARK. We have done a number of things, Mr. Chairman. We have, first and foremost, as I mentioned in my testimony, trained Medical Center staff to understand the ESPC contract process.

We have now trained virtually all of our procurement staff in that area, all of our technical staff in that area, as well as the VISN staff, over the last couple of years. Obviously, with turnover in staff, we need to renew and continue those efforts, and will do that, but training has been a major thrust of our plans.

Also, the staff here in Washington, through a series of conference calls, guidance, policy guidance, we have apprised the field of these opportunities and, perhaps more importantly, instructed them in how to go about the mechanics of entering into these contracts, and

I think generally raised the level of sensitivity, interest and knowledge about the ESPC contracting process.

Mr. EVERETT. And I'm sure that's right, but the average GS–10 contracting officer trained by you in these very complex multi-faceted contracts and the business aspects of ESPC, are they capable of exercising these contracts?

Mr. CLARK. They are capable of exercising those contracts. Obviously, that's going to vary from facility-to-facility. And what we have tried to do is ensure that there is a knowledge so that those contracts can be expeditiously put in place. But, obviously, there's a lot of people involved. These are very complex contracts, and there are strengths and weaknesses in that area throughout the system.

Mr. EVERETT. Have any of the medical facility folks actually done one of these contracts?

Mr. CLARK. I'm not sure what individual facilities have done them. We do have contracts now in three of the networks, which have been put in place only within the last 6 months, that involve 20 facilities.

Mr. EVERETT. The medical center contracting officers, did they actually execute these ESPC contracts at those facilities you just mentioned?

Mr. GRAHAM. Yes. They are involved in it, and most of the networks utilize the contracting officers at some of their servicing facilities, and key facilities, to actually exerts this and coordinate others that for all the network facilities.

Also, we had five facilities that entered into contracts themselves—Dallas, Lake City, Florida; Richmond, Virginia; Portland, Oregon, and West Haven—on their own initially, plus, as you heard, Omaha is pursuing it on their own.

One of the benefits of the DOE and the DOD contracts is that a lot of the more complex issues have already been addressed for the facility staffs, and it makes it much easier for them to get involved in this process.

Mr. EVERETT. Do you have kind of a boilerplate guide for them to go by?

Mr. GRAHAM. Yes, we sure do. It took a while to put it together, and we had to try to make sure that we were minimizing the risk factors. There are a lot of issues with liabilities and so on, and we address that in a general sense with a fairly lengthy guide, and then we tailored that as we got some feedback from the field about specific issues that they felt also needed to be clarified. So, we kind of had two tiers of information we've provided the field.

Mr. EVERETT. Mr. Clark, of the 170 medical centers, how many of them have had ESPC contracts signed and working?

Mr. CLARK. The contracts that we just mentioned, which I think were five or six, are actually contracts and, as I said, we've got three networks now that have VISN-wide contracts in place. I will point out that all 22 networks, are in various stages of evaluating contracts or determining what their contract strategy will be, so this is at least an activity that's ongoing in all 22, and probably half of those are in stages of contracting where we hope that they would consummate a contract in the upcoming months.

Mr. CLARK. The large numbers are going to really come forward with the VISN-wide concept. Of the three network VISN contracts that are being dealt with right now, there are 20 facilities in those three networks. So, that's where you start to really get into the larger number of facility involvement.

Mr. EVERETT. Could part of the $20 million for the Tampa Spinal Cord Injury Unit and Energy Center project have been contracted under the ESPC?

Mr. CLARK. I'm sorry, the question was, could it have been contracted under ESPC?

Mr. EVERETT. Yes, could it have been contracted under ESPC and, if it could have, why wasn't it?

Mr. CLARK. I'm afraid I don't know the answer to that.

Mr. GRAHAM. I think primarily it was an Energy Management Center which had to do with the monitoring of some of the equipment. To be sure, some of the chillers were updated and upgraded for the spinal cord unit, but it was an oversight project that pulled in not only the equipment, but also the Energy Management Center, which is a computerized monitoring program for all of the aspects of energy at the facility. That was conceived, and we've done those traditionally, as a separate portion of a major construction project.

Mr. EVERETT. Out of curiosity, how many medical centers have highly efficient light fixtures installed as a result of ESPC contracts?

Mr. CLARK. If we don't have an answer right at the table, we can certainly provide that to you. We don't know the answer to that, but we can provide that for the record.

Mr. EVERETT. In the Department's 1997 annual report to the President and Congress, as required by the Energy Policy Act of 1992, the VA claims to have achieved a 15.1 percent reduction overall in energy consumption.

If I lay your 1996 and 1997 annual reports side-by-side, it looks like the VA increased its fuel consumption in almost every single category. Can you explain how that can happen?

Mr. GRAHAM. I can explain some of that, Mr. Chairman. I think, in part, what we've realized is that many of our facilities have become retrofitted for air conditioning, particularly facilities that were not, when they were built, air conditioned. As the facilities are retrofitted, or refurbished, generally we will include as part of that project, an air conditioning component. And so we will consume much more energy through air conditioning, in part.

Another reason or another factor, certainly, is the increased sophistication of equipment and technology, particularly computers. Much of that has contributed to the increase in consumption.

Mr. EVERETT. As I look down here, it's not just electricity, but fuel oil, natural gas, LPG and propane gas, coal, they are all up. Could you give me—I would ask you to make a detailed analysis of this—surely somebody has done that somewhere—and make it available to this Committee?

Mr. CLARK. Certainly we can do that.

(The information follows:)

Question: Provide detailed analysis in all categories indicating the reasons for increases in energy consumption in FY 1997 as compared to FY 1996 as reported in the annual reports to the Department of Energy (DOE).

Answer: Based upon the annual reports submitted to DOE, the following is the comparison of energy consumption in buildings and facilities operations:

COMPARISON OF ENERGY CONSUMPTION
BUILDINGS AND FACILITIES

TYPE OF UTILITY	**CONSUMPTION**		**PERCENTAGE CHANGE**
	FY 1996	**FY 1997**	
Electricity (Megawatt Hours)	2,616,791	2,671,954	+ 2.10%
Fuel Oil (Thousands of Gals.)	15,005	8,520	- 43.21%
Natural Gas (Thousand Cubic Feet)	13,361,917	13,812,620	+ 3.37%
LPG/Propane (Thousands of Gals.)	178	48	- 73.03%
Coal (Short Ton)	5,999	6,110	+ 1.85%
Purchased Steam (Billion BTUs)	1,189	1,229	+ 3.36%
Purchased Chilled Water (Billion BTUs)	33	139	+ 321.20%
Gross Square Foot	149,730,000	151,230,000	+ 1.00%
Air Conditioning Tons	375,017	383,132	+ 2.16%

Explanation of Increases and Decreases by Category

Electricity:

The increase of 2.10% is primarily attributed to the increase in gross square footage (1.00%) and the installed air conditioning tonnage (2.16%). Also, the installation of computers and other equipment such as cat scanners, magnetic resonance imaging (MRI), and their related requirements to maintain certain temperatures and controls 24 hours a day to provide the best medical care to the veterans has contributed to the increase in electrical consumption nation-wide.

Fuel Oil, Natural Gas and LPG/Propane:

The fuel oil consumption went down by 43.21%, LPG/Propane went down 73.03%. However, the natural gas consumption went up 3.37%. The reason for the increase in natural gas consumption and the decrease in fuel oil and LPG/Propane consumption is because many facilities have changed to natural gas instead of fuel oil and LPG/Propane. Also, the added gross square foot of space increased the natural gas consumption during the heating season.

Coal:

Sheridan, WY, is the only medical center that uses coal for its boilers. According to the chief engineer at the medical center, the reason for the increase was a colder 1997 winter as compared to 1996 winter and a major steam leak in the underground supply piping during 1997. Deteriorating steam traps caused the make-up water to increase from 2,000 gallons in 1996 to 6,000 gallons in 1997 that also increased the coal consumption. A project has been funded to correct these problems.

Purchased Steam:

There are twelve (12) medical centers that are purchasing steam. Four of them have shown a significant increase in their consumption in the fourth quarter of FY 1997 as compared to their consumption in the fourth quarter of FY 1996. According to the chief engineers at these medical centers, there were various reasons for the increase in steam consumption shown in FY 1997. VA medical center, Baltimore checked with the utility company and found out that one of the two meters was not working during the months of July, August and September, 1996. VA medical centers at North Chicago and Chicago (WSD) reported that 1996 was a much hotter summer than 1997. All steam supply to the main buildings was shut-off except for the animal quarters resulting in lower steam consumption in fourth quarter FY 1996 as compared to fourth quarter of FY 1997. VA medical center, Madison, WI reported that the steam was first procured from the University of Wisconsin in January 1996, so the steam consumption was not reported for the first quarter of FY 1996. Also, the increase in the fourth quarter of FY

1997 over the previous year was due to 1) significantly colder summer relative to 1996, 2) activated 20,000 square foot laboratory addition and new ambulatory surgery suite.

Purchased Chilled Water:

There are two medical centers that are now purchasing chilled water, San Antonio, Texas and Madison, Wisconsin. In FY 1995 and FY 1996, only Madison, WI, purchased the chilled water. The consumption of chilled water in FY 1995 was 44 billion Btus, whereas the consumption in FY 1996 was 33 billion Btus, a reduction of 25%. In FY 1997, San Antonio started to purchase chilled water and its consumption for FY 1997 was 117 billion Btus and the consumption for Madison was 22 billion Btus (a total of 139 billion Btus). The increase shown on the annual report for FY 1997 is because San Antonio was added (321%).

Question: Facilities that have had high energy efficient lighting installed as a result of ESPCs.

Answer: There are only two medical centers, Lake City, Florida and West Haven, Connecticut that have high energy efficient lighting installed as a result of ESPCs. However, there are many medical centers (about 60) that have retrofitted their existing lighting fixtures with high energy efficient fixtures including the use of T-8 lamps in conjuction with specular reflectors and electronic ballasts. Some of these projects were accomplished using utility rebate programs and the others were completely funded by the VA. Almost all medical centers have retrofitted some of their existing lighting fixtures with high energy efficient fixtures in one area of the medical center or the other. With the implementation of ESPC, Super ESPC and assistance from Army Corps of Engineers, we hope to retrofit the existing lighting fixtures in the remaining medical centers.

Mr. EVERETT. Mr. Palazzi, how much money has your project actually saved to date, total figure?

Mr. PALAZZI. Total for the contract of the 15-year term will be over $9 million. We save approximately $600,000 a year. Of that, the ESCO ends up getting about 90 percent of that. After we pay off the capital improvement, the net return to the VA is about $24,000 to $30,000 actually savings in our pocket.

Mr. EVERETT. Counsel for the Minority has some questions, and then I'll have a closing remark or two.

Mr. SACHS. Thank you, Mr. Chairman. Mr. Clark, your testimony indicates, on the last page actually, that the VA is currently evaluating its participation in Super ESPC contracts. Can you elaborate on this? It appears this might somehow suggest you might have second thoughts about participation. Can you clear that up for the record?

Mr. CLARK. No, there are no second thoughts. That's merely a reference to the fact that involvement in the various networks are at different stages. Some are much more advanced than others, but there is no suggestion on our part that we are having second thoughts. I think we see this as a good thing, and more than just a good thing, it's an essential thing. We need to realize the energy savings.

Mr. SACHS. Is this something that's being put out to the VISNs? I mean, is there an understanding out there that there is a vehicle in place that would smooth the way to this sort of energy savings?

Mr. CLARK. Yes. We have shared this information or tried to share this information through a variety of directives, guidance, training, and whatnot. In all candor, we have learned as we have grown with this process, how to do it, how to do it best.

We will this year be putting together a national strategy or national plan to maximize our efforts in this area. We've not done that yet, but we are in the process of doing that, and I think that will include a strategy for making sure that everybody is informed about these opportunities and how to maximize that potential.

Mr. SACHS. Thank you, Mr. Clark.

Mr. Palazzi, if you can just quickly give us a sketch as to what gave you the impetus to undertake your project, and how you found out about the program, and the degree to which the VA Central Office was supportive of your efforts.

Mr. PALAZZI. My case is kind of unique. Again, I was a little bit ahead of the curve. My motivation was to improve my facility and take heart that VA West Haven or VA Connecticut is my home, and I look out for it and try to improve it any way I can.

In conversations with my peers in the private sector as well as intercommunication to other agencies such as GSA, around 1990 I became aware of the opportunity to do something like this.

Through interacting with private sector, especially my utility companies of which I have two, they gave me the guidelines and/or the opportunities that were within my facility that could pay back within a reasonable period of time. So that helped me in the decision screening process, and everybody that does an ESPC needs to do this decision screening process to see which are going to pay back and be reasonable and that you want to invest into. Unlike some ESCOs, you want to do everything in your facility economically. It may not work for all sites.

We ultimately did secure a sample contract from GSA, modified it, had L&T review accomplished, advertised it, went through the RFP process—which ESPC is a standard RFP format. Everybody seems to think it's something special, it's an RFP. And we ultimately awarded. I can tell you, this particular kind of contract is different in the fact that it is true performance. Traditional contracting that every Government agency does is usually spec and then bid out to a contractor to provide what the Government tells them to give you, exactly down to what color the device must look like. ESPC contracting is true performance contracting, where you establish a line that the contractor must meet.

In my case, I evaluated our existing equipment. Our chillers were almost 30 years old. And based on assumptions and calculations, I knew what the performance of my chillers were. I looked at technology at that time, what was the most efficient, and I selected the most efficient technology for the contractor to meet.

What that did is establish the quality of equipment to be inserted into our facility. Standard specifications can be met by many different manufacturers. Performance can only be met by a few.

Ultimately, we received a product that was superior to what I could get through a traditional.

Mr. SACHS. And did you have the support of Central Office with regard to your efforts, or were they plugged into this?

Mr. PALAZZI. Yes, I did. As a matter of fact, I did work with Raj Garg, who is at the table today, assisted us in developing our schedules so that we could get the legal approval.

Mr. SACHS. Thank you, Mr. Chairman.

Mr. EVERETT. Thank you. I want to thank the panel, all the panels, for appearing here today. It's pretty obvious there we can significantly reduce the VA's energy costs and provide private sector funds to invest in efficient equipment that uses the latest technology, as you just referred to, Mr. Palazzi. And I am encouraging the VA to move forward with ESPC contracting.

I want to note again that we are talking about a potential savings here of $60 million a year, annually, out of the $220 million energy bill that the VA has. And I would like to point out to you that this Subcommittee is extremely interested in this matter, as well as the full Committee Chairman, Mr. Stump.

I am therefore requesting that we ask the VA to furnish me a quarterly report on its activities, and that should be a very comprehensive report of what projects are planned, which projects are underway, what progress has been made, and a possible completion date on these projects.

As I said, money is pretty hard for us to come by around here nowadays, and we're talking about a direct dollar-for-dollar savings of appropriated funds.

I appreciate your being here today, Mr. Clark. I assume that this report will come directly from your office, is that correct?

Mr. CLARK. Yes.

Mr. EVERETT. And we look forward to seeing the first one in about 3 months. Thank you very much for appearing here today. This adjourns this meeting.

[Whereupon, at 3:27 p.m., the subcommittee was adjourned.]

APPENDIX

STATEMENT OF THE HON. JAMES E. CLYBURN RANKING DEMOCRATIC MEMBER HOUSE VETERANS' AFFAIRS SUBCOMMITTEE ON OVERSIGHT & INVESTIGATIONS

VA PARTICIPATION IN FEDERAL ENERGY MANAGEMENT PROGRAM

MARCH 18, 1998

AS THE RANKING DEMOCRATIC MEMBER OF THIS SUBCOMMITTEE, I AM PLEASED THAT CHAIRMAN EVERETT HAS CALLED THIS IMPORTANT HEARING THAT GOES TO THE VERY HEART OF GOOD GOVERNMENT.

IF WE TOOK A POLL, MOST AMERICANS WOULD PROBABLY HAVE NO IDEA WHAT THE FEDERAL ENERGY MANAGEMENT PROGRAM IS. THAT'S NOT TO SAY, HOWEVER, THAT IT'S NOT AN IMPORTANT INITIATIVE.

CONGRESS VOICED ITS STRONG SUPPORT FOR THIS PROGRAM WHEN IT ENACTED THE ENERGY

POLICY ACT OF 1992. THE PROGRAM IS DESIGNED TO ENCOURAGE REDUCED ENERGY CONSUMPTION AND MORE EFFICIENT USE OF SCARCE RESOURCES BY OUR FEDERAL AGENCIES, INCLUDING VA.

FOR REASONS THAT I AM SURE VA WILL EXPLAIN IN SOME DETAIL THIS AFTERNOON, IT HAS TAKEN AWHILE FOR THE VA TO BEGIN ACHIEVING THE EFFICIENCIES CALLED FOR UNDER THE ACT.

NO DOUBT THERE'S A LOT OF WORK YET TO BE DONE ON THE PART OF THE VA AND OTHER FEDERAL AGENCIES. I AM HOPEFUL THIS HEARING WILL HELP SENSITIZE THE VA TO THE IMPORTANCE THIS COMMITTEE PLACES ON THE PROGRAM, AND TO THE NEED FOR WISE AND EFFICIENT USE OF ITS APPROPRIATED DOLLARS.

THANK YOU AGAIN, TERRY, FOR PUTTING TOGETHER THIS HEARING THIS AFTERNOON. I LOOK FORWARD TO THE TESTIMONY.

STATEMENT OF THE HONORABLE LANE EVANS
RANKING DEMOCRATIC MEMBER
HOUSE COMMITTEE ON VETERANS AFFAIRS

OVERSIGHT SUBCOMMITTEE HEARING ON ENERGY SAVINGS PERFORMANCE CONTRACTS

MARCH 18, 1998

Thank you, Mr. Chairman. I won't take much of the subcommittee's time this afternoon, but I wanted to commend Terry and Jim for their interest in this afternoon's hearing.

Energy efficiency and cost savings may not make headlines in tomorrow's papers, but they are the kinds of priorities the VA and other federal agencies cannot afford to ignore as we make our way into the 21st century.

Thank you, Mr. Chairman, for recognizing me. I look forward to the testimony.

STATEMENT OF

JOHN ARCHIBALD
ACTING DIRECTOR
FEDERAL ENERGY MANAGEMENT PROGRAM
OFFICE OF ENERGY EFFICIENCY AND RENEWABLE ENERGY
U.S. DEPARTMENT OF ENERGY

BEFORE THE

COMMITTEE ON VETERANS' AFFAIRS
SUBCOMMITTEE ON
OVERSIGHT AND INVESTIGATIONS
UNITED STATES HOUSE OF REPRESENTATIVES

MARCH 18, 1998

Mr. Chairman, members of the Committee, I am John Archibald, Acting Director of the Federal Energy Management Office with the Department of Energy.

It is a pleasure to be here today to present testimony on the topic of utilizing Energy Savings Performance Contracts (ESPCs) and improving energy efficiency within Federal agencies. As the Acting Director of the Federal Energy Management Program, or FEMP, I help coordinate energy management activities across all agencies.

The Energy Policy of Act of 1992 (EPAct) requires all Federal agencies to install in their buildings all energy and water conservation measures with payback periods of 10 years or less. Further, Executive Order 12902 requires Federal agencies to reduce energy consumed in Federal buildings by 30% by 2005 relative to 1985. ESPCs are an excellent tool for achieving these energy reduction goals.

ESPCs, formerly know as shared energy savings contracts, are an alternative to the traditional method of financing energy efficiency improvements in Federal buildings through Federal appropriation of capital funds. Under this alternative financing arrangement, Federal agencies contract with energy-service companies who make the capital investments and deliver savings before they are paid. Their services include identifying building energy requirements and acquiring, installing, operating, and maintaining the energy-efficient equipment, as well as providing guarantees for energy and cost savings. The contractor is then paid from a share of the cost savings resulting from these improvements until the contract period expires. At that time, the Federal government retains all additional savings and owns the equipment.

EPAct directed the Department of Energy to develop methods and procedures to bring ESPCs into the mainstream of Federal procurement. An ESPC regulation detailing the methods and procedures was published at 10 CFR 436. The regulation establishes a method to qualify energy services companies and identifies the methods and procedures for contractor selection. It also implements the provisions of EPAct that allow Federal agencies to enter into ESPCs for up to 25 years without funding cancellation charges, permit contract payments from funds for energy and related operation and maintenance expenses, and require annual energy audits to verify guaranteed costs savings. DOE's Federal Energy Management Program has developed model procurement documents; the *Measurement and Verification Guideline for Federal Energy Projects*; a how to manual for ESPCs; education videos for management, legal, and contracting personnel; and a web page with ESPC information on the Internet to assist Federal managers in using this contracting vehicle.

The Department of Energy (DOE) and the Department of Defense (DOD) have put in place regional Super ESPC multiple award contracts which are beginning to speed large investments in energy projects and are available for use by any agency. DOE has awarded two regional Super ESPCs; one in May 1997 for the Department's Western region and another in January 1998 for the Southeast region. These two contract awards represent $1.5 billion of private sector expertise and capital for funds to finance energy efficiency improvements in Federal buildings. The DOE will award four additional regional contracts by the end of FY 1998, which will encompass the remaining four DOE regions. In a parallel effort, the Army Corps of Engineers has awarded a four-state regional contract and a 46-state regional ESPC. These contracts allow less effort on contracting and more focus on the site's energy needs.

DOE has been pleased to provide assistance to the Department of Veterans' Affairs (VA) in several ways. VA contracts and engineering personnel from over 30 VA Medical Centers have attended FEMP workshops on ESPCs and Super ESPCs since fiscal year 1994. We provided assistance to VA staff development of boilerplate ESPC contract documents which were based on DOE's model solicitation and ESPC regulation at 10 CFR 436. In August 1997, we offered a customized workshop on ESPC concepts and how to use the DOE Super ESPCs, which was attended by VA staff from HQ and 20 of the VA's 22 Veterans Integrated Service networks (VISNs), an impressive turnout. We have provided briefings, at VA's request, on Super ESPC and available FEMP technical services to engineering and contracts personnel of VISN 4 in Pennsylvania, VISN 2 in upstate New York, and VISN 1 in Massachusetts. DOE FEMP staff are working with VA acquisition teams to assist them in developing delivery orders under DOE's

Western Region Super ESPCs at White City, Oregon (VISN 20) and Tucson, Arizona (VISN 18). We are also pleased to be working with VA sites to develop Super ESPC projects in regions yet to be awarded, such as Grand Junction, Colorado, who leads an effort to implement Super ESPC delivery orders for all sites in VISN 19 under our soon to be awarded Central Region Super ESPC. And we are committed to supporting the efforts of Mr. Steve Mamis and Mr. Robert Pallazi, who is also testifying here today, to assess opportunities and develop cost-effective delivery orders for Medical Centers in New England (VISN 1) to be implemented under our Northeast Super ESPC scheduled for award later this year.

We offer services to VA through the DOE Super ESPCs, and we are also ready to support VA activities through the Army Super ESPCs if that is best for the VA, our customer agency. Contractors are ready to support energy efficiency efforts through ESPCs. We believe that the various contract vehicles that we have in place and planned offer the best range of opportunity for energy savings.

In summary, we are pleased to support the Department of Veterans' Affairs activities in this area. We are conscious of how tight Federal budgets are and how ESPCs can continue to help the Veterans Administration save energy while managing its budget wisely. The Federal government has been directed by the President to show leadership in meeting climate change goals. We are ready to support the Veterans Administration in their use of ESPCs and other financing and energy management vehicles.

Furthermore, we are privileged to have an opportunity to deliver such substantial savings to the taxpayers while adding to the economic prosperity of the country. We are anxious to accomplish as many energy savings projects as quickly as we can and are fortunate to have many private sector partners in this endeavor. We believe we have put in place the contracts and procedures that will result in significant savings being achieved quickly and with the benefits of that contracting evenly and competitively dispersed across all companies that are willing to help.

Thank you Mr. Chairman and members of the committee.

STATEMENT FOR THE RECORD
on behalf of the
NATIONAL ASSOCIATION OF ENERGY SERVICE COMPANIES
before the
HOUSE VETERANS AFFAIRS SUBCOMMITTEE
ON OVERSIGHT AND INVESTIGATIONS
regarding
ENERGY MANAGEMENT PROGRAMS WITHIN THE
DEPARTMENT OF VETERANS AFFAIRS

March 18, 1998

INTRODUCTION

Thank you Mr. Chairman. My name is Erbin Keith. I am the Senior Vice President and General Counsel for CES Way International, Inc., an Energy Services Company with its main offices in Houston, Texas. I appreciate this opportunity to testify, on behalf of the National Association of Energy Service Companies, on energy management programs within the U.S. Department of Veterans Affairs (DVA).

The National Association of Energy Service Companies (NAESCO) is a trade association of energy service companies (ESCOs) and their trade allies, including utility and manufacturing companies. NAESCO also represents companies who are in the business of monitoring, measuring and verifying energy savings. Our current membership of over 140 organizations includes many small to medium sized ESCOs, as well as larger national firms, such as Johnson Controls and Honeywell. Ours is a young and growing industry that provides services vital to America's interest in reducing its energy costs.

SUMMARY

While the Department of Veterans Affairs initially was slow to join the movement toward energy efficiency investments in federal facilities, DVA Medical Facilities are showing a dramatic increase in their interest in energy efficiency following the DVA's issuance of its implementing guidelines in September 1996. DVA can further facilitate energy efficiency investments in its facilities by offering increased contracting assistance in the field, as well as continued encouragement from the DVA to its facility managers. In addition, a greater reliance on Energy Savings Performance Contracts (ESPCs) as opposed to utility area wide contracts will enable VA facilities to realize the greatest possible gains from the energy efficiency investments being made in those facilities.

ENERGY COSTS AND ENERGY EFFICIENCY PROCUREMENT IN THE FEDERAL GOVERNMENT

The Federal government is the single largest energy consumer in the world. In 1994, the Federal government spent about $3.8 billion of taxpayer money for the energy it used in the buildings that it owns and leases. Competitively procured energy efficiency improvements, financed by the private sector, can reduce these energy costs by as much as $1 billion per year through the use of energy savings performance contracts (ESPCs). The capital upgrades and energy cost savings offered to federal facilities through ESPCs come at no additional cost to the Federal budget, or to American taxpayers. In addition to reducing the cost of operating the federal infrastructure, these capital improvements further benefit the U.S. economy through the creation of new jobs and through a decreased reliance on the import of fossil fuels.

The private, state and local sectors have been making use of competitively procured performance-based energy efficiency upgrades since the early 1980's. **As always, the use of competitive procurement ensures buyers the highest quality and most comprehensive project for the most reasonable cost.**

In passing the 1992 Energy Policy Act (EPAct), the Congress authorized federal agencies to procure, through competitive bid, Energy Savings Performance Contracts (ESPCs) from private sector Energy Service Companies (ESCOs). The energy efficiency improvements obtained through these contracts may be financed with private capital. All energy savings must be measured, verified and reported. The contractor must guarantee the federal agency that it will realize the energy savings projected. If this guarantee is not met, the contractor pays the difference.

THE ENERGY SERVICES INDUSTRY

ESCOs design, manufacture, finance and install state-of-the-art energy efficiency projects in a highly competitive energy services market. They offer a broad range of technologies suited to all sectors of the economy. Energy efficient lighting, heating and air conditioning; energy efficient motors, boilers and refrigeration systems; and variable speed drives, controls systems and cogeneration technologies are among the most common of the current technologies being used. Our ESCO members arrange financing for these projects and assume the performance and technical risk of the project. Hospitals are prominent among the thousands of energy efficiency projects installed by our members to date.

ESCOs offer **comprehensive energy efficiency retrofits**, through ESPCs. A comprehensive energy efficiency retrofit applies an energy efficiency strategy that is tailored to the particular uses of the facility and that takes advantage of all economically feasible opportunities for energy savings at the facility. A comprehensive retrofit also permits the shorter payback on some technologies, such as lighting, to help support the cost of longer payback items such as boilers. This weighing of paybacks is a financial tool that ESCOs use to ensure that projects are economically viable while at the same time enabling customers to maximize their energy use and cost savings. The economic advantages of the blending of paybacks is one reason why most ESCOs encourage customers to undertake energy efficiency retrofits in a single comprehensive project, rather than to undertake them sequentially.

On average, comprehensive energy efficient capital improvements reduce energy use and costs by 25 percent. Energy savings are measured based on the difference between pre-project and post-project energy use. EPAct requires and our ESCO members provide for the continuous monitoring, measurement, verification, and monthly reporting of energy use as part of the project installation, and through the ongoing project operation and maintenance available through these contracts. Under a performance-based contract, the ESCO is paid for all project costs, including financing, only from these continuously monitored energy and cost savings.

ENERGY SAVINGS IN DVA FACILITIES

Energy Savings Performance Contracting (ESPC) is a classic "win-win" initiative for the Federal Government and particularly for DVA facilities. DVA facilities can obtain energy efficient capital upgrades while enjoying:

- investments in new capital equipment without the need for new appropriations;
- reduced utility bills and lower maintenance costs;
- improved building environment for the occupants, including patients and employees; and
- a ready solution to long-deferred maintenance problems.

ESPCs offer a tremendous benefit to the DVA and to American taxpayers, at a time of shrinking budgets for capital improvements and operations and maintenance in federal facilities. The average medical center has annual utility bills of $1 to $2 million. The potential for annual ESPC project savings would average from $200,000 to $400,000 per Medical Center. The construction investments associated with these projects would be in the range of $2 to $3.5 million per Medical Center. This would yield an infusion of over $400 million into needed energy, environmental and infrastructure improvements within the DVA.

STREAMLINED FEDERAL PROCUREMENT AND CONTRACTING METHODS

The Department of Energy (DOE), as required by Congress, has developed implementing regulations for the procurement of ESPCs from individual private sector Energy Service Companies. In addition, both DOE and the Army Corps of Engineers have developed and implemented a method for ESPC contracting through federal Indefinite Delivery, Indefinite Quantity (IDIQ) contracts. The use of IDIQs enables the DOE to offer Energy Savings Performance Contracts to federal facilities on a regional basis, through the competitive pre-selection of Energy Service Companies. The Army Corp IDIQ offers competitively pre-selected ESCO energy efficiency services to Army facilities throughout the country. Thus, a number of different ESCOs stand ready to develop ESPC projects at Veterans Affairs Medical Facilities. NAESCO would like to encourage the DVA to utilize the ESPC procurement process, including the use of companies that were competitively selected through the IDIQ process.

IDIQs offer two additional advantages to federal facility managers. First, the DOE and Army Corps offer technical assistance for the development of an ESPC project. Second, the IDIQ participants are able to help federal facility managers develop a scope of work tailored specifically to the needs of the facility, a task that would have to be procured separately, or done internally under a traditional specification and bidding process.

THE USE OF ENERGY SAVINGS PERFORMANCE CONTRACTS BY THE DEPARTMENT OF VETERANS AFFAIRS

In September, 1996, the DVA issued its department-wide guidelines for ESPC procurement and contracting. Since that time, NAESCO's members have noted an increase in requests for proposals for ESPCs at VA facilities. In addition, there have been a small number of facility assignments, under the Army IDIQ, for the identification of projects at VA facilities. NAESCO would like to congratulate the DVA for its progress on these issues. However, the challenge now is to proceed with the actual implementation of the ESPC projects.

RECOMMENDATIONS

With the initiative on energy efficiency being taken by the DVA and its facility managers, NAESCO respectfully offers the following four recommendations to further facilitate this effort and to ensure that the DVA receives the greatest value from private sector energy efficiency investments.

1. The DVA should rely on Congressionally authorized Energy Savings Performance Contracts for the procurement of energy efficiency measures.
2. The DVA should provide training and support on ESPC contracting for its contracting officers.
3. The DVA should continue to provide leadership and encouragement for the procurement of energy efficiency measures at its Medical Facilities through the use of Energy Savings Performance Contracts.
4. The DVA should consider pooling projects at the Veterans Integrated Service Network (VISN) level rather than focusing on individual Medical Facilities.

1. RELY ON CONGRESSIONALLY AUTHORIZED ENERGY SAVINGS PERFORMANCE CONTRACTS

Some DVA Medical Centers have procured energy efficiency projects on a sole source basis through utility power supply contracts and utility area-wide agreements, rather than through competitive ESPCs. Typically, these noncompetitive utility contracts are not performance-based. Thus, they offer no guarantee to the DVA that projected energy savings will be achieved or that the energy savings that are realized will cover the cost of the Federal Government's investment in the project. Nor do they typically provide for the measurement and verification of energy savings from the project. Finally, the time limits placed on utility contracts make them inappropriate for developing a comprehensive energy efficiency retrofit at a Medical Facility.

The size and complexity of Medical Facility energy systems results in a relatively high cost capital improvement to achieve a comprehensive energy efficiency retrofit. Nonetheless, since the energy systems in a Medical Facility must run almost continuously, they generate ample energy savings to cover the cost of the investment. However, to fully recover the cost of a comprehensive retrofit at one of these facilities, the cost must be spread over a 15 to 20 year time frame. This is possible under ESPCs because they are authorized for up to 25 years. Utility contracts, however, are authorized for only 10 years, making them inappropriate for the procurement of a comprehensive retrofit.

At least one of NAESCO's member companies has already had the experience of going into a VA Medical Facility where a utility had previously completed an energy efficient lighting retrofit. No other energy systems in the facility had been touched. The very short payback period on lighting is critical to the economic viability of a comprehensive capital-intensive retrofit, such as that required by a Medical Facility. As a result of the utility's lighting-only retrofit in this particular facility, additional energy efficiency improvements were no longer financially feasible. Thus, the bulk of the energy and cost savings offered by that facility have been lost.

2. SUPPORT LOCAL CONTRACTING OFFICERS

Energy Savings Performance Contracts have been available for use only for the past four to five years. Thus, only a very small number of federal contracting officers have had the opportunity to become familiar with them. As a result, contracting officers often lack familiarity with the appropriate ESPC procurement procedures and contract terms.

Local DVA contracting officers need to be properly and thoroughly trained and need to feel comfortable in negotiating ESPC deals. The training provided by DOE is a good start. However, contracting officers, for the most part, appear to need greater familiarity and practical experience with this contracting and financing vehicle. The key is to provide more thorough training and guidance to local contracting officers, as well as support for contract review, by qualified headquarters staff as contracting officers develop their experience with ESPCs.

3. LEADERSHIP FROM HEADQUARTERS

After releasing its ESPC guidelines in September, 1996, DVA appears to have provided its Medical Facilities with little or no additional guidance or support for ESPC contracting. DVA's and its Medical Facilities' interest in and commitment to energy efficiency appears to be on the rise. However, since the procurement of Energy Savings Performance Contracts is such a new and unfamiliar process, NAESCO strongly encourages DVA to continue to encourage its local facility personnel to use the ESPC process. An ESPC is a complex undertaking from both an engineering and financial perspective, as well as a contracting perspective. As a result, it requires "buy-in" from a number of parties, including the facility manager, contracting officer, legal counsel, and the VISN or Medical Center director.

NAESCO believes that ongoing leadership from the DVA will help to ensure that the trend toward energy efficiency procurement within the DVA will continue. Without this continued momentum, capital investments may languish and energy savings may be lost.

4. POOL ESPC PROJECTS AT THE VISN LEVEL

The DVA should consider pooling projects at the VISN level rather than concentrating on individual Medical Facilities. A single VISN generally includes five to seven Medical Facilities. By allowing for the procurement of multiple projects at the VISN level, DVA can streamline its ESPC procurement and contracting process. In addition, pooling at the VISN level would permit energy savings to be leveraged, not only within a single project, but also across projects within a pool.

CONCLUSION

The DVA and its Medical Facilities recently have shown a dramatic increase in their interest in energy efficiency. NAESCO believes that the DVA can further facilitate energy efficiency investments in its facilities by offering increased contracting assistance in the field, as well as continued encouragement from the DVA to its facility managers. NAESCO also recommends that the DVA and its Medical Facilities place a greater reliance on comprehensive energy efficiency retrofits provided through Energy Savings Performance Contracts, as opposed to utility area wide contracts. ESPCs will enable the DVA to realize the greatest possible gains from the energy efficiency investments being made in its facilities.

THE NATIONAL ASSOCIATION OF ENERGY SERVICE COMPANIES

March 18, 1998

Neither the witness, Mr. Erbin Keith, his employer, CES Way International, Inc., nor the National Association of Energy Service Companies, the organization represented, have received grants or other funding of any kind from the Department of Veterans Affairs during the current or previous two fiscal years.

DEPARTMENT OF THE ARMY
HEADQUARTERS, U.S. ARMY CORPS OF ENGINEERS

COMPLETE STATEMENT
OF
MAJOR GENERAL MILTON HUNTER
DIRECTOR OF MILITARY PROGRAMS
U.S. ARMY CORPS OF ENGINEERS

BEFORE THE

OVERSIGHT AND INVESTIGATIONS SUBCOMMITTEE
OF THE
COMMITTEE ON VETERANS' AFFAIRS
UNITED STATES HOUSE OF REPRESENTATIVES

ON
ENERGY SAVINGS PERFORMANCE CONTRACTING

MARCH 18, 1998

INTRODUCTION

Mr. Chairman and members of the subcommittee, I am MG Milton Hunter, Director of Military Programs, U. S. Army Corps of Engineers. In your letter of invitation, you asked for testimony on the Army's experience in Energy Savings Performance Contracting (ESPC). In my statement, I will briefly discuss what ESPC is, give an overview of the DoD ESPC program and the work currently being done for our customers, and then I'll close by briefly discussing how the Veterans Administration is currently using the ESPC program to meet its energy savings goals.

What is ESPC?

ESPC is an innovative contracting program designed to achieve energy savings by capitalizing on significant levels of contractor investment in energy enhancement equipment. In partnership with the government, private firms provide the design, capital investment, construction, and maintenance for new energy-efficient equipment, products, or systems. Firms recover their investments only if actual cost avoidance is realized. The Corps' ESPC program has a simple requirement: No savings, no payment. Performance contracting allows the government to cut energy costs without appropriating funds and without incurring capital costs for energy-efficient upgrades.

The strategy is to leverage private capital to increase efficiency of facilities and to reduce energy consumption. In exchange for a major share of the energy cost avoidance dollars, private firms design, construct, operate, and maintain the energy conservation measures.
The Corps' customers (any government agency) benefit by avoiding construction costs and O&M costs while reducing energy demand and acquiring much-needed new energy-efficient equipment. This program allows government agencies to leverage scarce resources.

Overview of the U.S. Army Corps of Engineers' ESPC Program

The Corps' involvement in this energy program dates back to 1986 when it was first authorized by the National Energy Conservation Policy Act (42 U.S.C. Section 8287). The program underwent a name change from Shared Energy Savings to ESPC under PL 102-486, on October 24, 1992. The rule establishing procedures and methods for ESPC was issued by DOE 10 April 1995. ESPC authorizing legislation includes: 10 U.S.C. Section 2865, as amended, and Public Law 102-486, October 24, 1992. Executive Orders covering ESPC are 12759, April 17, 1991 and 12902, March 8, 1994. The U.S. Army Engineering and Support Center, Huntsville, in Huntsville, Alabama, has been designated the Technical Center of Expertise for ESPC projects within the Army.

Currently, the program has turned an Army investment of $792 K since 1988 into 11 projects with a private sector investment of $36 Million for the replacement of lighting, motors, cooling systems, ground source heat pumps, and air propane plants. The result is an Army cost avoidance of $53 Million over the life of the contracts. This is a great investment with over a 10 fold return on those savings retained by the Government of about $11 Million.

The Corps' involvement in ESPC began in 1986 with the award of a chiller replacement in Corpus Christi, Texas. The Corps now has 13 regional ESPC contracts to cover all 50 states, DC and Puerto Rico. These 13 regional ID/IQ contracts have an ordering capacity for about $2 Billion worth of energy saving measures. These contracts and the support of our Huntsville center are available to any government agency at any level of government. Our customers include the Army, Air Force, Coast Guard, Defense Logistics Agency (DLA), the National Guard Bureau and the Veterans Administration.

In February, OSD provided the Corps with $4 million to "jump start" the ESPC program for all DoD services. This money is being used to support a wide variety of initiatives including: (1) assisting customers in the award of task orders against the existing area wide contracts; (2) development of new contracts to support ESPC activities at DoD facilities in Europe and Korea; (3) expansion and award of additional contracts for CONUS; (4) training for Corps districts in the ESPC process, (5) promotion of the ESPC program; and (6) technical support to the Air Force and the Navy in their efforts to implement ESPC programs.

Current VA Involvement

The Veterans Administration uses a multi-faceted approach to energy savings performance contracting. They use the DoE Regional contracts, they develop their own contracts, and they use the Huntsville Center's Corps contracts. Currently, three of the 22 Veterans Integrated Service Networks (VISN) have chosen to take part in the Corps' ESPC program. VISN #5, VISN #6, and VISN #8 signed Memorandums of Agreement with our Huntsville Support Center in the fall of 1997. A single hospital within VISN #14, the VA Omaha Medical Center in Omaha, Nebraska, has also chosen to participate. An ESPC contractor has been selected for each VA customer. The Huntsville Center has conducted training sessions for personnel and the selected contractors at these three VISNs and at the VA Omaha Medical Center. The purpose of the training is to provide information on ESPC processes and responsibilities of all involved parties. The ESPC contractors have performed initial site visits and are currently proposing projects such as energy-efficient lighting upgrades and lighting controls, chiller upgrades and replacement, boiler upgrades, utility monitoring and control systems (UMCS), domestic water heating, electric peak shaving, variable speed drives, geothermal heat pumps, cooling tower replacement, and motor replacements. This represents a total estimated private investment of about $15 Million with a potential energy cost avoidance of about $30 Million. Construction activity is expected to begin Fall 1998.

STATEMENT OF
KENNETH J. CLARK
CHIEF NETWORK OFFICER
VETERANS HEALTH ADMINISTRATION
DEPARTMENT OF VETERANS AFFAIRS
BEFORE THE
HOUSE COMMITTEE ON VETERANS' AFFAIRS, SUBCOMMITTEE ON OVERSIGHT & INVESTIGATIONS
CONCERNING
ENERGY MANAGEMENT PROGRAM
AND
ENERGY SAVINGS PERFORMANCE CONTRACTS
MARCH 18, 1998

Mr. Chairman, I appreciate the opportunity to discuss Veterans Health Administration's (VHA's) Energy Management Program.

Background/History:

The Department of Veterans Affairs (VA) has been actively involved in energy conservation since 1975. E.O. 12003 issued in July 1977 mandated that all Federal Agencies reduce their overall energy consumption by 20% in Btu per square foot by the end of FY 1985 in existing buildings and a 45% reduction from the 1975 base year in new construction.

During the ten year period from 1975 - 1985 VA exceeded its reduction of 20% in spite of the fact that the installed air conditioning tonnage was increased by 70% and gross square footage of space by almost 16% during this period.

The National Energy Conservation Policy Act signed in 1978 required each agency to reduce its energy consumption by 10% in Btu per gross square foot by FY 1995 as compared to its consumption in FY 1985, (new base year). In 1986, A consultant was hired who analyzed existing data, conducted energy audit surveys and compared VA with current private industry practices. Based upon this study, new target goals for FY 1995 were established for each VA medical center.

E.O. 12759 issued in 1991 required all agencies to reduce their consumption in Btu per gross square foot by an additional 10% by FY 2000 as compared to their consumption in FY 1985. E.O. 12902 issued in 1994 requires all agencies to reduce their consumption in Btu per gross square foot by 30% by FY 2005 as compared to consumption in FY 1985. New target goals for each medical center were again established in FY 1995 to meet the requirements for FY 2005.

Energy Management in VHA:

Each VA medical center is required to develop and annually update a five year energy management plan which is submitted to Veterans Integrated Service Networks (VISNs). These plans are reviewed nationally to identify those areas offering the most potential for energy savings based upon the life cycle cost analysis and to provide the basis for funding of energy conservation projects.

Four times annually, a consultant contracted for the entire agency monitors the performance of VA medical centers in achieving established target goals, through a quarterly report that tracks various types of fuel consumption and cost data. This information is then used to prepare quarterly performance reports to Department of Energy (DOE). As of the first quarter of FY 1998, we have achieved almost half of the reduction required by FY 2005.

Some energy conservation projects were accomplished with the VA's active participation in local utilities rebate programs that have saved VA millions of dollars in investment of our funds as well as savings in utilities cost.

VA medical centers may also contract directly with local utilities to provide similar services to those available from independent ESPC contractors. This option may offer attractive opportunities for savings. VA Medical Centers, Tucson, AZ, and Canandaigua, NY, were able to significantly reduce their energy costs by negotiating with their local power provider.

In other initiatives to reduce the cost of utilities, VA has participated in wellhead gas contracts i.e., buying gas directly from a contractor rather than a utility company. The number of these contracts has increased in recent years and at present we are saving over $5 million dollars per year from these contracts.

In total, since 1975, we have invested about 200 million dollars on energy related projects which have produced cost avoidance of about 300 million dollars in various utilities costs. A critical aspect of identifying the most cost effective energy projects is the training and development of technical staff at each facility. The national energy consultant and the Chief of the Energy Management Division in the Chief Network Office have developed numerous programs for VISN and facility staffs. Combinations of conference calls, written guidance, and limited face-to-face training in areas of well-head gas contracting, energy conservation principles, energy audits, utility company rebates and negotiations, ESPCs, and life cycle cost analysis have been provided, and are continually repeated as new regulations and technologies emerge.

For the future, the VA intends to develop a national strategy to systematically review our facilities to identify opportunities using the various means available to achieve energy consumption reductions and cost savings that will accrue to improve medical care. The VA expects to have this strategy completed by end of this fiscal year.

Energy Savings Performance Contracts:

The Energy Policy Act (Public Law 102-486) also required all agencies to use Energy Savings Performance Contracts (ESPC), and E.O. 12902 strongly endorsed the use of ESPC in meeting energy reduction goals.

An ESPC provides for the acquisition of energy efficiency improvements at no capital cost to the Government. Under an ESPC, an independent contractor makes capital improvements by replacing existing inefficient energy consuming devices with efficient energy consuming devices. These devices may include lighting fixtures; boilers; heating, ventilating, and air-conditioning units; chillers; energy management controls and others. During the contract period, the contractor may propose additional energy conservation cost-effective projects. An ESPC may be awarded for a period not to exceed 25 years. Throughout this term, the agency never pays more than what the utility bill would have been had no ESPC been awarded. Under this contract, the contractor installs, operates, and maintains all the equipment and receives a certain percentage of the savings generated by his efforts in avoided utility costs.

The VA awarded its first ESPC contract at the VA Medical Center West Haven, CT, in October, 1992. The entire cost of this project, which included replacement of lighting and cooling systems together with the maintenance of the new chiller equipment, was funded from rebate programs provided by Southern Connecticut Gas and Illuminating Company and from guaranteed savings in energy costs achieved over a period of 15 years under this contract. This project included the replacement of two existing 800 ton each centrifugal chillers installed in 1963 with the new 800 ton centrifugal electrical chiller and one 1,000 ton steam absorption chiller. These chillers were operational in 1993. Also, 8,500 lighting fixtures were replaced with energy efficient fixtures. The medical center has reported that this project has been very successful and has achieved the anticipated annual energy savings of about $550,000.

In October 1996, formal guidance including sample contract language, guidelines, and technical specifications was issued to all VA medical centers. A guidebook also was prepared in July 1997 by the National Center for Cost Containment, with technical help from Headquarters and field engineers, to assist VA field personnel with improving energy conservation and facilitating the replacement of aging and inefficient equipment through ESPC. Many medical centers have taken advantage of ESPC training conducted by DOE that has helped them to issue Requests for Proposals (RFPs). Also, we are using the U.S. Army Engineering and Support Center to assist VA with the implementation of ESPC.

The following highlights some of the ESPC projects underway at various medical centers:

- VA Medical Center, Lake City, Florida, completed the retrofit of lighting fixtures throughout the medical center.
- VA Medical Center, Dallas, Texas, completed the installation of a thermal storage vessel of 3.3 million gallons.
- VA Medical Center, Richmond, Virginia, completed the installation of new cooling towers.
- VA Medical Center, Portland, Oregon, completed the retrofit of about 10,000 lighting fixtures, 500 exit signs and 800 occupancy sensors.
- VA Medical Center, West Haven, Connecticut, completed the installation of two new chillers and retrofitted the existing 8,500 lighting fixtures in 1993. At present, it is considering the installation of an ice storage system for its future expansion of a 100,000 square foot building.

Several other projects are in preliminary stages:

- VISN 10 has issued the RFP for proposals from the vendors to evaluate the existing conditions and make recommendations for energy conservation measures.
- VA Medical Center, Loma Linda, CA, has awarded a contract under ESPC to Southern California Gas Company, and has completed about 30% of it.
- VISN 16 is evaluating the potential of awarding a VISN-wide contract to one contractor.
- VISNs 5,6 and 7 have signed a Memorandum of Agreement (MOA) with the U.S. Army Engineering and Support Center, Huntsville, Alabama, for various services including preparing the solicitation, evaluating the contract proposals, awarding the contract, administering the contract and addressing post-award issues.

In an effort to simplify the ESPC process, DOE has established Super ESPCs through multiple awards of indefinite delivery, indefinite quantity contracts in each of its six regions. There will be a limited number of DOE approved contractors designated in each region to perform ESPCs under the Super ESPC format. DOE will then authorize facilities that wish to issue delivery orders against the contract to contract through any one of the contractors on a sole source or competitive basis. DOE has selected contractors for its western and southeast regions. VA is currently evaluating its participation in this Super ESPC process.

Conclusion:

VA will meet its energy consumption reduction goal of 30% by FY 2005 as mandated by E.O. 12902. VA has historically met all previous energy consumption reduction targets through management's continuous emphasis on this program and wise investment in cost-effective energy conservation projects. Reduced funding availability from traditional capital accounts in Minor construction and Non-Recurring Maintenance are planned to be offset with aggressive and increased use of ESPC and Super ESPC. Our national strategy will emphasize selecting best value approaches to improving the efficiency of our use of energy resources.

STATEMENT OF
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VA CONNECTICUT HEALTHCARE SYSTEM
BEFORE THE
HOUSE COMMITTEE ON VETERANS' AFFAIRS, SUBCOMMITTEE ON OVERSIGHT & INVESTIGATIONS
CONCERNING
ENERGY MANAGEMENT PROGRAMS
AND

ENERGY SAVINGS PERFORMANCE CONTRACTING
(ESPC)

March 18, 1998

Good afternoon, Mr. Chairman, I appreciate the opportunity and the invitation to discuss ESPC as it relates to my Medical Center.

The VA Connecticut Healthcare System successful implementation of the VA's first "Energy Savings Performance Contract" (ESPC). The project is being paid for exclusively through savings earned by the savings generated by the project and does not require capital investment. This program will extend over a 15-year period and is estimated to save an average of $600,000 in annual energy costs or approximately $9,000,000 over the term of the contract.

The ESPC program at this facility consists of two Energy Conservation Measures (ECM). The first ECM consisted of replacing approximately 8,000 lighting fixtures. These lighting fixtures did not have high efficiency electronic ballast or T-8 florescent tubes. In conjunction with the high efficient lights, specular reflectors were added to reduce the number of lamps required. The second ECM included the replacement of the main chilled water plant. The old chilled water plant, constructed in 1964, was inefficient and required extensive maintenance due to frequent mechanical failures. The ESPC project replaced this thirty-year-old electric chiller plant with a new 800-ton electric centrifugal chiller plant with a new 1,000-ton steam driven two-stage absorption chiller.

Under the ESPC program, the Medical Center negotiated a contract with a third party vendor; and in conjunction with local utility companies, arranged financing for the project without any up-front costs to the Federal Government. Under this format, the vendor assumes all risks for the project in return for a percentage of net savings achieved through the conservation measure. The entire cost associated with design, construction and implementation of this project, including maintenance, is supported through from the guaranteed savings in energy costs over the next 15 years. The ESPC program became operational on April 15, 1993.

The establishment of this ESPC program was very involved. Since no other VA program had ever been successfully completed the effort required substantial research through contacts with other government agencies and the private sector. Contacts were made through GSA, the Department of Navy, and the local utility companies. The interagency contacts provided sample contracts previously issued. The local utility companies, however, provided a much more needed component, field verification, base line data, and potential programs. Both electric and natural gas utility companies were contacted and were willing to provide surveys of our facility at no cost to the government. The utility companies hired separate independent-engineering firms to survey the entire medical center. Based upon their findings and support data, appropriate programs were selected. The solicitation was created, reviewed by our legal and technical experts, and subsequently awarded.

Internally, the coordination and cooperation of the Chief Engineer, Chief of Acquisition and Material Management, and the Chief Fiscal Officer was required. Since this type of program was not a standard and had not been accomplished before in the VA, ESPC was met with some skepticism. With the concurrence of the Medical Center Director the complete solicitation was assembled and issued.

With ESPC, there was no initial outlay of funding required. All payments to the contractor are generated through energy savings. The total estimated capital expenditure by the contractor was $2,900,966, less utility rebates of $410,966, which provided a net cost of $2,490,000. Utility rebates were comprised of $100,000 from the natural gas supplier and $310,966 from the electric utility. Dollar amounts, extracted from schedules of the contract, are as follows.

	Cost Savings	Amortization	Net Cost Savings	Contractor's Share	Govt. Share
Yr. 1	$471,011	160,330	310,682	279,613	31,069
Yr. 2	$590,729	242,113	348,616	313,755	34,861
Yr. 3	$608,275	244,523	363,752	327,377	36,375
Yr. 4	$589,468	245,730	343,737	309,363	34,367
Yr. 5	$598,591	245,730	352,860	317,547	35,313
Yr. 15	$9,724,559	3,658,263	5,267,943	4,742,487	525,456

Based upon actual data collected, the total kWh unit cost has dropped from the base year. Prior to the ESPC contract the unit cost for electricity was $0.12. This cost has been reduced through this contract and is now at $0.09 per kWh. This shows a straight line savings of 25%. In addition to the straight-line calculation we have experienced two base rate increases from the utility totaling an additional 3%.

The results that we have experienced at this site through ESPC have exceeded our original expectations.

The results are, to name a few:

- Updating our aging chiller plant with state of the art equipment.
- Reduced maintenance and repair costs.
- Maintenance & Operation of the chiller plant are supported by the contract.
- Assisted this medical center to meet its' energy goals as identified by the Energy Policy Act of 1992.
- Conserves non-renewable fuels achieving the goals of EPA for a cleaner environment
- Reducing utility usage and costs without sacrificing service.
- Removed and replaced 800 lbs. of R-11 CFCs with environmentally friendly R-123.
- Stimulated the economy by opening other resources to Energy Service Contractors.
- The government received capital benefit without expending appropriated funds.

In today's environment, not unlike private sector, the government must seek out and establish new and innovative means in order to meet their goals. Budgets are ever reducing and the physical infrastructure is aging. ESPC has provided the VA with the opportunity at this site to improve its' physical plant without expending capital funds. In one sense the dollars deferred actually had a double bonus. By replacing the chilller plant through ESPC the total capital cost of $2.5M did not have to be obtained from normal resources. As such the VA was able to utilize appropriated funding at other sites.

As with any new incentive, support is required from top management and the dissemination of information down to all parties involved. Without the confidence and support I receive at VA Connecticut I would not have been able to facilitate this program. The work environment at our facility fosters innovation and resourceful thinking. I constantly look for alternate means to accomplish my work to improve the facility as well as the patient care environment at VA Connecticut. This, however, does require communication with my counter parts in other federal agencies as well as public and private sector expertise to allow the exchange of new ideas.

The results can be measured.

Where do we go from here. As being the first in the VA and the subject matter expert I have been involved at the Department level. Initially, in reviewing the Rule and worked on a committee to develop an Request For Proposal (RFP) that would pass the test and meet approval for legal and technical review at the Central office level. The VA standard solicitation model was completed and issued to the field in September of 1996. In an effort to enhance this program I also served on a Technical Advisory Group (TAG) through the VA National Center for Cost Containment . A Guild Line was subsequently issued in July of 1997 to all field offices. To future extend the availability of this contracting means a centralized three-day course was offered to all VA's in August of 1997. The Federal Energy Management Program (FEMP) provided this course to the department. Attendance included Engineering as well as Acquisition and Material Management personnel representing all twenty-two (22) Veteran Integrated Service Networks (VISN's).

At the VISN level I am the team leader for VISN 1 for ESPC. VISN 1 is actively pursuing this endeavor and has interacted with the Department of Energy's renewable energy division FEMP. At the present time we are negotiating with FEMP to provide base-line studies for all ten (10) sites within VISN 1. This is the first step in identifying potential sites within the VISN that would be attractive to entertain ESPC. For those sites not found viable the study will also provide energy projects which will be considered for local funding through traditional methods. With the anticipated award of the Super ESPC that FEMP is now in the process of negotiating for the Northeast area VISN 1 will be in position to award ESPC contracts in the near future.

ISBN 0-16-057744-6

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